

August 2, 2000

The Honorable Gray Davis
Governor
State of California
The California State Capitol
Sacramento, CA 95815

Dear Governor Davis:

In response to your letter of June 15th, included as Attachment 1, the attached report analyzes the electricity conditions facing California, including the Bay Area black-outs of June 14th and the circumstances giving rise to forced outages and related pricing problems. Your concerns have proved well-founded in light of recent retail price escalations in San Diego and the state-wide wholesale price upsurges. The Bay Area outages and the San Diego price increases are only the first manifestations of problems in our electricity system.

We applaud your leadership in calling on the Federal Energy Regulatory Commission to extend California's authority to institute wholesale electricity price caps and to examine whether California's energy markets are yet competitive. Prompt federal action to give California the tools to handle electricity pricing problems is crucial for California's economy and families.

You also asked us for findings and recommendations resulting from our investigation. Both the Bay Area black-outs and the San Diego retail price spikes grow from the same roots. Thus, in the report we have described past actions and policy changes that set the stage for the energy supply and pricing issues we now face.

This report underscores the importance of collaboration and coordinated action among your agencies and appointees. We suggest that you consider forming a task force to address energy issues, comprised of the following: the President of the Public Utilities Commission, the Chair of the Electricity Oversight Board, the Chair of the Energy Commission, The Secretary of the California Environmental Protection Agency, the Secretary of the Resources Agency and the Director of the Governor's Office of Planning and Research. An Administration task force should

work together to develop effective and efficient solutions to the problems identified in this report.

We note that this investigation has been conducted on an emergency basis during the past month. This report is not an exhaustive academic, economic or policy analysis of all the issues relating to electricity. Instead, we endeavor to provide merely a context and explanation for recent events and our findings relating thereto.

We have faced many challenges and frustrations in obtaining documents and facts that would have enabled us to analyze events fully or come to comprehensive conclusions. We intend to continue our investigation until we have the facts. As we have operated under emergency conditions, we have necessarily relied upon the best information available to us within this time frame. Thus, the information to which we refer may contain inadvertent errors, as we have relied on others' data and projections.

We look forward to working with you to find the facts and design responsible and workable solutions to California's electricity challenges.

Michael Kahn
Chairman
Electricity Oversight Board

Loretta Lynch
President
Public Utilities Commission